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Chairman, President &
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U.S. RE Corporation
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USRE

BY FAX AND EXPRESS MAIL

July 28, 1999

Mr. Franklin W. Nutter
President
Reinsurance Association of America
1301 Pennsylvania Avenue, N.W.
Suite 900
Washington, DC 20002-1701

RE: Catastrophe Excess of Loss Reinsurance Availability in the U.S.A.

Dear Frank:

U.S. RE Corporation is pleased that it has been cited in the July 23rd, 1999 memorandum from the Majority Staff to the Legislative Assistants' Committee on Banking and Financial Services. This memorandum discusses catastrophe exposures and we presume data contained therein will be discussed at the hearing of July 30th, 1999 on HR.21, The Homeowners Insurance Availability Act of 1999.

In the fourth paragraph of the Memorandum, it mentions that U.S. RE has publicly stated that the total supply of available reinsurance in any single region of the United States is approximately $7 billion. We wish to point out that this information is now substantially outdated, as it was based on an analysis our company performed in 1995/96. Since then, the capacity for catastrophe reinsurance protection has grown dramatically. In fact, based upon an analysis we have just completed, we estimate that the catastrophe reinsurance capacity for four of the key regions of the U.S.A. has now more than doubled, as follows:

North East	$13.0 – 14.0 Billion
Carolinas	$12.5 – 13.5 Billion
South East	$13.0 – 14.0 Billion
Gulf & Texas	$14.5 – 15.0 Billion

We enclose copies of our exhibit which reflects this revised analysis for your convenience. We would also like to point out that based upon our estimate, the aforementioned amounts can be increased by as

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much as 40% when factoring the availability of the additional reinsurance capacity coming from proportional property treaty reinsurance, per risk excess of loss reinsurance and facultative reinsurance. Moreover, additional capacity is now available from the capital markets which began to emerge in 1994. This capacity has grown since 1994/95 to approximately $1 billion in any one zone. Consequently, the aggregate capacity is estimated to be more than $20 billion of limit for any one zone. We also further believe that catastrophe capacity from the capital markets will grow more significantly now that investors in the security sector have begun to actively support securitization products tied to the assetization of catastrophic risk.

Considering that insurers themselves are generally prepared to retain a certain level of losses after deducting recoveries from reinsurance and other risk transfer devices, we believe that any legislation calling for a federal reinsurance mechanism should be formulated such that the federal program should not operate or trigger below an industry loss of between $25 to $30 billion. Furthermore, we believe that the trigger level established should be adjustable to meet future changes in capacity available from private sector mechanisms. With the foregoing in mind, U.S. RE Corporation urges the Committee and members of Congress to assure that HR21 or any similar type of proposed legislation will not be formulated in such a way as to compete with private sector reinsurance capacity.

We understand that the RAA's position is consistent with our philosophy and are prepared to assist it and the House Committee with any clarification or further information and remain at your disposal.

Sincerely,

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DATE: June 11, 1999 **TIME:** 4:31 PM

TO: Frank Nutter **COMPANY:** RAA

FROM: Bill Riker, President & COO

Re: Reinsurance Catastrophe Capacity

Dear Frank,

Thank you for inquiring about our views on the available catastrophe capacity by region in the United States. As you know, Renaissance Re is one of the largest catastrophe writers in the world. As part of this activity we maintain an exhaustive database of all catastrophe offerings we consider and pride our selves in having the most comprehensive database of catastrophe cover actually purchased in the U.S.

We run a variety of probabilistic models against this database of catastrophe contracts to determine and understand the dynamics of the risk in the market. Up until now we have maintained this information as proprietary to ourselves, but at your request, we are willing to release a certain amount of the information we have assembled. If must be understood that the information is our best attempt to model the reinsurance business and is subject to some degree of interpretation.

Attached is an exhibit, which outlines the capacity available by major risk territory in the US. To clarify, this is the actual amount we calculate would be paid by the reinsurance market in very large events.

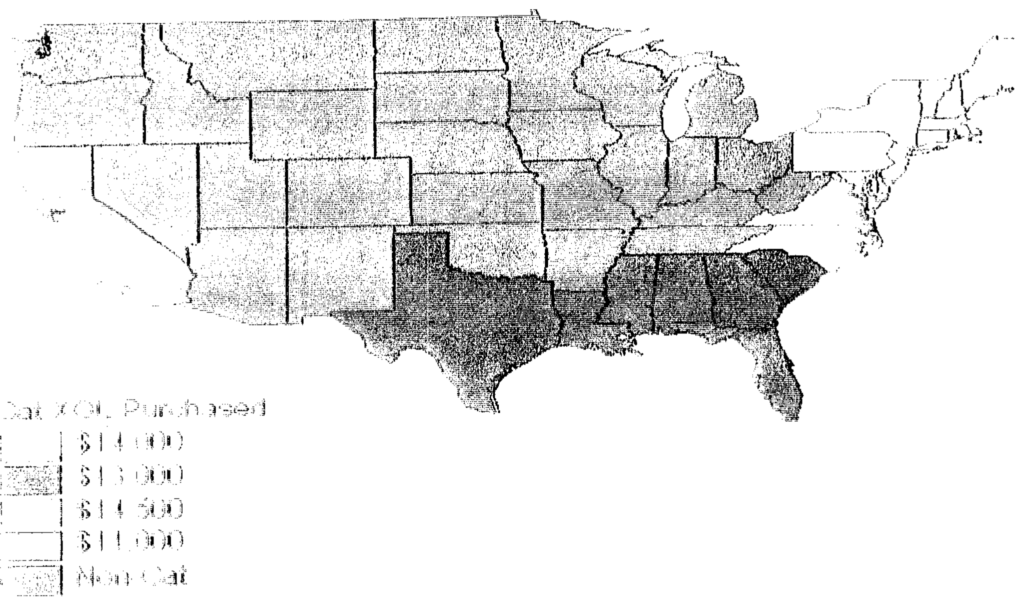
Total Maximum recoverable in an Event (millions)

Region	Cat XOL Purchased
Northeast	14,000
Southeast	13,000
California	11,000
New Madrid	14,500

* CAT XOL - Natural catastrophe Excess of loss reinsurance provides a defined limit of coverage that indemnifies the company above a specified loss amount.

As you can see, our data indicates there is about $14 billion in capacity per event by region currently purchased be the primary insurance market at this time. We also believe there is additional capacity available in the cat excess of loss market, but many insurance companies have decided to retain the risk on their own balance sheets. Also there is additional reinsurance protection that will be payable following a natural disaster from proportional, facultative and per risk excess of loss reinsurance agreements. More research needs to be done to ascertain the amount of additional reinsurance protection from these products, but we believe these products add about 40% more potential recovery.

Total Maximum Recoverable



Thank you for your inquiry and hope you find this information helpful.

Best regards,

William I. Riker

SECURITIZING NATURAL DISASTER RISK

Nationwide - Nationwide has the option to issue up to $400 million of 9.222% surplus notes to fund new business opportunities or as reimbursement to catastrophic losses. Contract with Morgan Guaranty Trust Company. (1995)

Arkwright - Arkwright has set up a trust to issue $100 million in trust notes to private investors. New proceeds of the notes will be used to buy government securities held by the trust. (1996)

AIG Combined Risks/Benfield - Placed 5 catastrophe-linked bonds with an investment fund managed by Mercury Asset Management. Bonds will pay out if a catastrophe exceeding an agreed trigger occurs in: U.S., Japan, Australia, Caribbean, Europe or Japan. (1996)

Hannover Re - Sold $100 million worth of catastrophe cover. The portfolio-linked swap is comprised of the following: Japanese earthquakes, U.S. natural catastrophes, Canadian natural catastrophes, North European storms, North European other catastrophes, Australia - all catastrophes and aviation excess of loss. (1996)

St. Paul Re - $68.5 million deal through Goldman Sachs & Co. to increase capacity. St. Paul Re will cede reinsurance business from five classes under a 10 year reinsurance treaty. Investors participate in excess-of-loss underwriting by investing in bonds or preference shares. Enables St. Paul to increase capacity in 5 excess-of-loss classes: U.S./Caribbean property-casualty, European property-casualty, other property-casualty, retrocessional/Lloyd's short-tail and marine and aviation. (1997)

Winterthur Swiss Insurance Group - Placed $282 million of catastrophe bonds in private capital market. The bonds cover Winterthur exposure to auto claims stemming from domestic summer hailstorms. Transaction managed by Credit-Suisse First Boston. (1997)

Swiss Re - Placed $137 million in two-year bonds tied to reinsurance losses from a potential California earthquake. Swiss Re and Credit Suisse First Boston were the placement agents for the notes. (1997)

Horace Mann Educators Corporation: Agreement allows Horace Mann to receive up to $100 million from Center Re, the transactions underwriter, in exchange for an equivalent value of its convertible preferred shared in the event of a mega-catastrophe. (1997)

RLI Corporation - Aon Re Services developed a $50 million catastrophe equity put (CatEPut) for the RLI Corporation. The deal was underwritten by Centre Re. In the event of a catastrophe which exhausts RLI's traditional reinsurance coverage, the CatEPut program allows RLI to sell up to $50 million in preferred shares to Centre Re. (1997)

USAA - Placed $477 million of hurricane bonds in the private placement market. The bonds will provide USAA with an excess-of-loss cover tied to a single hurricane producing losses of more than $1 billion during a one-year reinsurance period. The syndicate managers were Merrill Lynch & Co., Goldman Sachs & Co. and Lehman Bros. (1997)

LaSalle Re - Aon Re, Inc. and Aon Securities Corporation developed a $100 million multi-year Catastrophe Equity Put (CatEPut) option program for LaSalle Re. The option program allows LaSalle to issue up to $100 million in convertible preferred shares in the event of a major catastrophe or series of large catastrophes that result in substantial losses to LaSalle Re. (1997)

Reliance National Insurance Company - Completed a $40 million securitization of non-catastrophe coverage for its property, aviation, marine drilling and satellite launch exposure. The placement ties bond payment trigger points to a catastrophe index established by Swiss Re. Sedwick Lane Financial structured the deal. (1997)

Tokio Marine & Fire Insurance Co., Ltd - Tokio Marine has acquired earthquake risk coverage of $90 million purchased from capital markets investors through Parametric Re, Ltd. Parametric Re issued 10-year fixed income securities with principal reduction contingent on the occurrence and severity of earthquakes within an area centered on Tokyo. Goldman, Sachs & Co. and Swiss Re Capital Markets Corporation were co-leaders for the transaction. (1997)

Centre Solutions - Issued $83.5 million in catastrophe bonds. The bonds provide retrocessional catastrophe cover for natural and man-made perils which Centre Solutions has underwritten. The bonds have an expected maturity date of December 31, 1998. The bonds were placed by Goldman Sachs. (1998)

Mitsui Marine and Fire - Obtained $30 million in reinsurance cover backed by event-linked swap transactions. Payment is determined by the magnitude of earthquakes in and around the Tokyo area. The cover for risks is available for a three-year period which began April 1, 1998. Swiss Re Capital Markets served as the agent for the swap transaction. (1998)

Reliance National Insurance Company - Purchased an option to issue multi-peril-linked insurance notes, providing a guaranteed reinsurance cost. The deal gives Reliance the right to issue notes over a three-year period to fund reinsurance coverage provided through SLF Reinsurance LTD. The notes are tied to five classes of risk: U.S. property, property outside of the U.S., aviation, marine drilling rigs and satellite launch failure. Sedwick Lane Financial structured the deal. (1998)

USAA - Placed $450 million of hurricane bonds in the private market. The syndicate managers were Merrill Lynch & Co., Goldman Sachs & Co., and Lehman Bros. (1998)

Yasuda Fire & Marine, Aon Capital Markets and Munich Reinsurance Company - Private placement of $80 million of catastrophe reinsurance notes that provide protection against Japanese typhoon-related losses. The notes may be triggered by either one large typhoon or two, smaller separate typhoons. (1998)

F & G Re - F & G Re, in conjunction with Goldman Sachs and E.W. Blanche Capital Markets, completed a $54 million bond issuance that backs its property catastrophe excess-of-loss reinsurance contracts. The funding benefits Mosaic Re, an offshore firm that provides reinsurance on F & G Re's products. This is the first Cat bond deal to securitize multiple underlying reinsurance contracts sold to a variety of insurers. (1998)

CNA - Issued $200 million of 6.6 percent notes due December 2008. Goldman Sachs is the lead manager, and Lehman Brothers the co-manager for the issue. The net proceeds will be used for general corporate purposes. (1998)

Centre Re Solutions (Bermuda) Limited - Sponsors its second securitization of reinsurance coverage by purchasing retrocessional capacity against Florida hurricanes from capital market investors through special purpose vehicle. Trinity Re 1999, Ltd. has used $56.615 mm of fixed income securities due 12/31/99. The loss of principal on the bond is triggered when Centre Re Solutions (Bermuda) Ltd. incurs losses as the direct result of a hurricane under an excess of loss reinsurance policy the company has written for a Florida residential property insurer. Goldman Sachs is lead manager, with Chase Securities, Lufkin & Jenrette Securities Corporation, and Zurich Capital Markets Securities, Inc. as co-managers. (1998)

Allianz A.G. Holdings - Issued a $150 million catastrophe bond option to cover European catastrophe risks. The bond option gives Allianz the right to issue notes at a fixed rate any time over a three-year period to fund $150 million of reinsurance coverage through Gemini Re, a Cayman Islands special purpose reinsurer. The bond allows Allianz to hedge its future cost of reinsurance. If traditional reinsurance costs rise after windstorm losses, the company might find it more cost effective to exercise the option to issue notes. Goldman Sachs placed the notes. (1998)

Hannover Re - Secured commitments for $50 million in options for risk securitization of catastrophe losses. The option was placed with North American institutional investors and was amended to a November 1996 transaction. (1998)

XL Mid Ocean Re - Placed a $200 million retrocessional property catastrophe cover. The transaction covers the upper layers of XL Mid Ocean Re's hurricane and earthquake exposure in the U.S. and its territories and possessions in the Caribbean. The deal provides retrocessional cover in the form of a swap in which claims recovery is triggered by catastrophe losses incurred by XL Mid Ocean Re. (1998)

Horace Mann Educators Corporation - Agreement involving a $100 million transaction with Center Re. The transaction was managed by Aon Capital Markets. (1999)

Constitution Re - Transferred its East and Gulf Coast hurricane risk to Arrow Re. The risk was spread through a series of securitization and risk-transfer transactions . The transaction involved a $10 million risk transfer. Goldman Sachs, Swiss Re New Markets and E.W. Blanch Capital Markets served as advisors. (1999)

St. Paul - Completed a $45 million securitization transaction. The transaction provides additional capacity for a dined portfolio of U.S. property catastrophe excess-of-loss reinsurance contracts. Mosaic Re II issued the debt securities for the securitization. (1999)

Kemper - Acquired $100 million of earthquake coverage. The capital markets transaction funds a fully collateralized reinsurance agreement providing $100 million of Midwest earthquake coverage to the Kemper Insurance Companies. The transaction was managed by Aon Capital Markets. (1999)

Sorema - Issued a three-year $17 million deal to protect its European windstorm exposures and Japanese typhoon and earthquake risks. The bonds have an annually renegotiable interest rate and allow Sorema to adjust the size of the coverage and the premium to meet market conditions. Merrill Lynch and Aon Capital Markets arranged the transaction. (1999)

Oriental Land Company - The owner of Tokyo Disneyland, Oriental Land Company, has placed two catastrophe bonds totaling $200 million to protect against earthquake risk. In the first bond, Concentric Ltd. would pay Oriental Land $100 million upon the occurrence of an earthquake that meets certain trigger conditions. The second bond provides Oriental Land with a $100 million post earthquake financing facility. Goldman Sachs and Company was the placement agent for both transactions. (1999)

USAA - Acquired $200 million in catastrophe reinsurance from Residential Reinsurance Limited. The proceeds of the sale of the bond were segregated into a trust to pay USAA's claims in excess of $1.0 billion arising from a category 3, 4, or 5 storm on the Saffir-Simpson index. The placement was co-managed by Goldman Sachs & Company, Lehman Brothers Holding and Merrill Lynch. (1999)

Prepared by RAA, updated July 1999

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